

A LETTER FROM THE CEO

KEITH R. DUNLEAVY, M.D.



Dear Fellow Stockholders,

2018 marked a year of positive transformation for Inovalon, leading to the emergence of the next generation of our Company and what we refer to as “Inovalon 2.0.” During the year, we completed the conversion of the majority of Inovalon’s offerings to a cloud-based, subscription-based model and we expanded our reach into the provider market through the acquisition of ABILITY Network, Inc. We continued to integrate and hone the business capabilities, sales models, strong workforce, and advanced technologies and data streams of our business units, including ABILITY, increasing the beneficial network effect of our combined entity and bringing to life synergy revenue generation opportunities. The Company continued to innovate, develop and expand our data assets and cloud-based platform offerings, increasing both our MORE² Registry[®] dataset and the number of Modules and the level of sophistication offered within the configurations of the Inovalon ONE[®] Platform.

The undertakings and accomplishments of the year were extensive – driving what we see to be notably positive benefits for our clients, the patients for whom they care, our Company, and our stockholders. In comparison to 2017, revenue in 2018 increased 17% to \$527.7 million, gross margin expanded by 620 basis points to 72.6%, adjusted EBITDA increased 39% to \$151.9 million, and cash flow from operations topped \$90 million – an amount that included the strongest fourth quarter cash generation since the Company went public in 2015.

In addition to the aforementioned in-year financial performance, which reflected the Company’s transformation to Inovalon 2.0 throughout the period, a number of key metrics demonstrated an increasingly positive momentum and growing success in the latter half of 2018. Driven by expanding data, analytical and platform differentiation, value delivery, and an improved focus on client success, we achieved outstanding client renewal rates and relationship expansions in 2018, resulting in our entering 2019 with a Client Retention Rate of 103% on a dollar basis. In addition to demonstrated success with existing clients, we also achieved a very strong showing with new clients, increasing the number of new logos added to our client portfolio by 29% in comparison to 2017. Altogether, the combination of the Inovalon 2.0 strengths resulted in impressive sales expansion delivering a 77% year-over-year increase in Annual Contract Value (ACV) sales by year-end.

Key to the expanding market demand seen by the Company in 2018 was the continued expansion of our market-leading Inovalon ONE[®] Platform. During 2018, we increased the number of Modules on the system from approximately 80 to nearly 100, enabling our customers across all of our verticals – payer, provider, pharmacy and life sciences – to adopt a wide array of possible configurations of our software-as-a-service solutions, selecting the capabilities that best meet their needs. Behind the scenes, our massive datasets continued to increasingly inform our platform’s capabilities – empowering the development and training of machine learning, artificial intelligence, and deep learning algorithms to deliver even greater client value and further differentiate Inovalon within the marketplace. Since the Company went public, our combined datasets have grown at greater than 50% per year on a compounded annual basis. By the end of 2018, our count of unique patients and medical events within our MORE² Registry[®] dataset had risen to more than 264 million and nearly 43 billion, respectively.

As seen within our strong Client Retention Rates, new logo addition rates, and ACV sales growth, the differentiated capabilities of the Company are increasingly resonating with existing clients and new clients. We are seeing this across all of the Company’s business verticals, with strong sales being realized by each. In addition, Inovalon is benefitting from the network effect wherein companies across our end markets begin to understand the dramatic interrelationship between their organizations. Pharmaceutical companies are seeking ways to demonstrate greater value and differentiation with health plans. Pharmacies are looking to collaborate more effectively with providers, and health plans are aiming to decrease costs and achieve better outcomes in coordination with all parts of the ecosystem. Inovalon’s breadth of relationships across the landscape, access to common data, interconnectivity, and appreciation of the healthcare marketplace’s regulations and complex dynamics is supporting a very positive network effect – enabling Inovalon to provide and empower increasingly differentiated offerings of concurrent value to multiple parties.

As we have expanded our platform capability set and client base, we continued to increase our total addressable market (TAM) and concurrently decrease our customer concentration. As our total addressable market has grown from an estimated \$84 billion in 2014 to \$142 billion in 2018, our total serviceable market has grown

from an estimated \$10.6 billion to \$30.1 billion. Over the same period, the concentration of our ten largest customers has decreased from approximately 76% down to approximately 42%. As we see the opportunities ahead continuing to expand, we have made substantial investments to pursue them. We have dramatically expanded our salesforce from approximately 15 people when we went public in 2015 to more than 200 people by the end of 2018. We have shifted from a healthcare-focused sales effort to a tech-led sales effort supported by subject matter experts. We implemented a project called “Simplify,” wherein we changed the entire contracting environment within the Company to streamline our efforts, shorten contract cycle time, and enable a higher velocity of sale and implementation. Today, we can capture opportunity and deploy our technology faster than at any other time in our history.

As we enter 2019, we have strong momentum and unprecedented visibility into our expected financial results for the year. We see very strong growth ahead – and we see it with greater visibility than ever before. In addition to significant reported and organic revenue growth, we also see continued expansion in our already-strong profitability through additional technology synergies, process automation, connectivity, product mix, and value-driven pricing strength. This forecasted revenue and margin expansion, in turn, are seen driving further increases in our cash flow and balance sheet strength.

Today, Inovalon is delivering high-value solutions to a marketplace that is undergoing an important transformation to data-driven healthcare. Our vision is to be the high-value enablement layer within this ecosystem and the trusted partner able to empower our clients’ achievement of clinical quality and financial performance improvement. We are seeing this play out and resulting in a strong, positive inflection in our business, and this has us excited about what lies ahead. We are pleased that you are on this journey with us, and we sincerely appreciate your interest and support as stockholders.

A handwritten signature in black ink, appearing to read "Keith R. Dunleavy". The signature is fluid and cursive, written over a white background.

KEITH R. DUNLEAVY, M.D.
Chief Executive Officer &
Chairman of the Board
April, 2019